

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**A REVIEW OF CONTRACTS TO COLLECT
ENTRANCE FEES AT FOLSOM LAKE
STATE RECREATION AREA**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-515.1

A REVIEW OF CONTRACTS TO COLLECT ENTRANCE FEES
AT FOLSOM LAKE STATE RECREATION AREA

APRIL 1986



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Thomas W. Hayes
Auditor General

April 8, 1986

P-515.1

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the three contracts awarded by the Department of Parks and Recreation for a concessionaire to collect entrance fees at Folsom Lake State Recreation Area from October 1, 1984 to April 30, 1985; October 1, 1985 to April 30, 1986; and May 1 to June 30, 1986.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	i
INTRODUCTION	1
ANALYSIS	
I THE DEPARTMENT OF PARKS AND RECREATION COMPLIED WITH STATE LAW IN AWARDING CONTRACTS TO A CONCESSIONAIRE TO COLLECT ENTRANCE FEES	5
CONCLUSION	14
II THE DEPARTMENT OF PARKS AND RECREATION COULD EARN MORE REVENUES IF IT USED ITS EMPLOYEES TO OPERATE THE ENTRANCE GATES	17
CONCLUSION	20
RECOMMENDATION	21
APPENDIX	
MAP OF FOLSOM LAKE STATE RECREATION AREA	23
RESPONSE TO THE AUDITOR GENERAL'S REPORT	
Resources Agency	25

SUMMARY

The Department of Parks and Recreation (department) complied with state laws in awarding contracts for a concessionaire to collect fees at the entrances to the Folsom Lake State Recreation Area (Folsom Lake SRA) during its off-seasons for fiscal years 1984-85 and 1985-86 and for May and June 1986. (The Folsom Lake SRA's off-season is from October 1 through April 30.) The department does not usually hire park aids to operate the entrances at the Folsom Lake SRA during its off-season. However, the department could have earned at least \$74,900 more than the rent paid by the concessionaire for January through April and October through December 1985 if it had operated the entrances with its own staff. For the off-season for fiscal year 1984-85 and from October 1 through December 31, 1985, the concessionaire paid the department a total of \$168,900. We determined that the department could have earned approximately \$243,800 for this period if it had used its own employees to operate the park's entrance gates.

Moreover, the department has awarded a third contract to the same concessionaire to collect entrance fees at the Folsom Lake SRA for the months of May and June 1986 because the Folsom Lake SRA does not have adequate funds to hire park aids to operate the entrance gates at the Folsom Lake SRA for May and June 1986. If the department used its own employees to collect the entrance fees, we estimate that the department could expect to earn \$37,200 more than the rent payment expected from the concessionaire. The department has allocated funds in its fiscal year 1986-87 budget to hire park aids to collect entrance fees at the Folsom Lake SRA during its off-season.

INTRODUCTION

The Department of Parks and Recreation (department) is responsible for the acquisition, development, and management of natural, cultural, and recreational resources in the state park system. In order to meet the recreational needs of the people of California, the department enters into contracts with private enterprises to operate concessions that offer goods and services, such as food sales and recreational equipment rentals, to state park visitors. These concessions not only assist the department in satisfying the recreational needs of the public but also generate significant revenues for the department. For the fiscal year 1985-86, the department will earn an estimated \$3 million from these concessions.

The Public Resources Code authorizes the department to contract with private entities for the collection of state park fees on behalf of the State whenever significant savings can be achieved. In December 1984, the department awarded a contract to a concessionaire to collect entrance fees at the Folsom Lake State Recreation Area (Folsom Lake SRA) between January 1 and April 30, 1985. In September 1985, the department entered into a second contract with the same concessionaire for October 1, 1985, through April 30, 1986. The department has awarded a third contract to collect entrance fees at the Folsom Lake SRA for May and June 1986. According to the Chief of the department's Office of Economic and Fiscal Affairs, the concession for collecting entrance fees at the Folsom Lake SRA is the only contract of

its type in the state park system. (A map of the Folsom Lake SRA showing the location of the park entrances operated by the concessionaire is included in the Appendix.)

SCOPE AND METHODOLOGY

The purpose of this review was to determine if the Department of Parks and Recreation complied with state laws in awarding contracts for collecting fees at the Folsom Lake SRA. To do this, we reviewed state laws and interviewed department officials to determine why the department negotiated a contract with a concessionaire to collect entrance fees at the Folsom Lake SRA and why the department negotiated a second and third contract with the same concessionaire.

To determine the costs and benefits to the department of negotiating a contract to collect entrance fees at the Folsom Lake SRA, we examined the concessionaire's reports of revenues, and we examined the concessionaire's staff schedules to determine the number of hours worked by the staff. In addition, to calculate the potential net earnings from the department's operation of the entrance gates, we determined the department's cost of hiring park aids to operate the entrance gates for the same period covered by the concession contracts.

To determine the costs and benefits to the department of negotiating the third contract for May and June 1986, we estimated the expected revenue from entrance fees and the cost to hire park aids to

collect the entrance fees based on the department's historical data for those months. We compared the department's expected net revenue using park aids to collect the entrance fees with our estimate of the department's share of the concessionaire's gross revenue for May and June 1986.

ANALYSIS

I

THE DEPARTMENT OF PARKS AND RECREATION COMPLIED WITH STATE LAW IN AWARDING CONTRACTS TO A CONCESSIONAIRE TO COLLECT ENTRANCE FEES

The Department of Parks and Recreation (department) has complied with the Public Resources Code in contracting with a concessionaire to collect entrance fees at the Folsom Lake State Recreation Area (Folsom Lake SRA) during the off-seasons in fiscal years 1984-85 and 1985-86 and for May and June 1986. Generally, the off-seasons cover the period from October 1 through April 30 of each fiscal year.

The Department's Process for Negotiating and Approving Concession Contracts

The department's Office of Economic and Fiscal Affairs (concessions office) is responsible for ensuring that concession contracts are processed in accordance with the Public Resources Code. The concessions office negotiates the terms of most of the concession contracts and approves all contracts for concessions within the state park system. The director of the department delegated authority to the department's regional directors to manage, administer, and approve concession contracts when the contract period is less than or equal to one year. The contracts must be reviewed by the department's concessions office and its legal office before final approval by the

regional director. The department's Inland Region processed the three contracts for collecting entrance fees at the Folsom Lake SRA. The department's concessions office approved the contracts, and the deputy director of the department's Inland Region signed them.

Terms and Conditions of the Three Concession Contracts

The terms and conditions of the fiscal year 1984-85 contract to collect entrance fees at the Folsom Lake SRA include the following:

- The concessionaire pays a minimum of \$500 to rent park property or 50 percent of the monthly gross receipts from entrance fee collections, whichever amount is greater. The concessionaire also pays \$50 per month for electric utility charges.
- The concessionaire may collect day-use, boating, and camping fees and may sell annual passes. The fees range from \$2 for a day-use pass to \$65 for an annual day-use and boating pass. The concessionaire keeps 50 percent of all fees collected.
- The concessionaire must submit to the district superintendent in charge of the Folsom Lake SRA a statement of the concessionaire's gross receipts for each month, including the cumulative gross receipts for the contract period.

- The concessionaire must keep separate records of his business transactions. The State has the right to examine these records at any reasonable time.
- The concessionaire must operate four entrance gates to Folsom Lake on a daily basis.
- The concessionaire must use the department's pre-numbered tickets for all park fee collections. The district office issues the tickets to the concessionaire, and the concessionaire is accountable for the disposition of the tickets.

The changes to the contract negotiated for fiscal year 1985-86 included an increase in the charge to the concessionaire for electricity from \$50 to \$125 per month, a decrease in the number of entrance gates operated daily by the concessionaire from four to three, and the operation of two additional gates, usually on weekends, at the discretion of the district superintendent.

For the third contract to collect entrance fees during May and June 1986, the department will receive a minimum rent of \$500 or 80 percent of the monthly gross receipts, whichever amount is greater. In addition, the concessionaire must operate five entrance gates to Folsom Lake daily.

Compliance With State Laws

The Public Resources Code requires the department to competitively bid contracts authorizing a concessionaire to occupy any portion of a state park only when the contract covers more than two years. The length of the contract for the fiscal year 1984-85 off-season was four months, and the length of the contract for the fiscal year 1985-86 off-season was seven months. The length of the concession contract to collect entrance fees for the remainder of fiscal year 1985-86 is two months. Since the three contracts for operating the entrance gates at the Folsom Lake SRA covered periods of seven months or less, the department was exempt from soliciting competitive bids for the contract.

In addition, the Public Resources Code requires that contracts awarded pursuant to the code's bidding requirements be reviewed by the Attorney General and the Department of General Services. Also, if the department extends a contract for more than one year, the extended contract must be reviewed and approved by the Attorney General and the Department of General Services. Since these contracts were exempt from competitive bidding and were not negotiated as extensions of previous contracts, the contracts were exempt from the contract approval process.

The State Administrative Manual generally requires that contracts with a total value to the State of \$10,000 be reviewed by the

Department of General Services. The concessionaire with the contract to collect entrance fees at the Folsom Lake SRA paid the department more than \$10,000 rent for the fiscal year 1984-85 off-season. We discussed the concession contract and the rental payments with the Department of General Services' legal counsel. He said that the State Administrative Manual is intended to reflect government policies and procedures, such as procedures for negotiating contracts. However, the State Administrative Manual is not intended to take precedence over a law. The Public Resources Code specifically addresses the requirements for negotiating the department's concession contracts; therefore, the Public Resources Code supersedes the contract approval process in the State Administrative Manual.

Our legal counsel reviewed the sections of the Public Resources Code that address the department's concession contracts, and he agrees that the department's concession contracts are exempt from Department of General Services' approval since they are for periods of less than one year. Section 5080.17 of the Public Resources Code specifically waives approval by the Department of General Services unless a contract authorizes occupancy of a unit of the state park system for a period of more than one year.

Finally, according to Section 5010.1(b) of the Public Resources Code, the department may award a contract to a concessionaire for collecting state park fees when significant savings can be achieved. Before negotiating the fiscal year 1984-85 concession

contract, the Folsom Lake SRA did not operate its entrance gates regularly during the park's off-season and, therefore, did not collect fees regularly. Since the current concessionaire operates the entrance gates to the Folsom Lake SRA regularly, the department is able to collect revenue from entrance fees that it would otherwise not have collected.

The Department's Reasons for Selecting the Concessionaire

The department entered into three contracts with the concessionaire for fee collection at the Folsom Lake SRA. The first contract ran from January 1 to April 30, 1985, the second from October 1, 1985, to April 30, 1986, and the third will run from May 1 to June 30, 1986. The concessionaire operated the entrance gates to the Folsom Lake SRA, collecting fees the department normally would not collect. The department's management believes that the concessionaire is familiar with the Folsom Lake area and operation of the entrance gates and provides a service to the department.

First Contract, January 1, 1985 through April 30, 1985 The superintendent in charge of the Folsom Lake SRA told us that the concessionaire with the contract to collect entrance fees at the Folsom Lake SRA would have to know the park's operating needs, the rules and regulations governing the state park system, the methods for scheduling the park's campgrounds, the methods for responding to the needs of park visitors, and the methods for contacting park rangers if

an emergency should arise. In addition, the Folsom Lake SRA administrative officer told us that it would take at least one month for a concessionaire to become familiar with these responsibilities to be effective on the job. However, the concessionaire, who initially proposed the idea of contracting for fee collections at the Folsom Lake SRA, was already familiar with the state park system, the Folsom Lake area, and the operation of the entrance gates, so little training was required. Furthermore, no department employees lost jobs because of the contract since the department hires no park aids during the park's off-seasons to operate the entrance gates to the Folsom Lake SRA.

The department's deputy director, the chief of the department's concessions office, the superintendent in charge of the Folsom Lake SRA, and the Folsom Lake SRA administrative officer believe that the present concessionaire offers a service to the park by operating the entrance gates to the lake during the park's off-seasons. The ranger in charge of land operations at the Folsom Lake SRA told us that, before the department entered into the concession contract, the park rangers or other available staff operated the entrance gates during the park's off-seasons only when heavy attendance was expected, usually on weekends. As a result, the department collected less revenue than it could have collected if the gates were operated on a regular full-time basis. In addition, department officials prefer to have a concessionaire operate the entrance gates regularly during the off-season rather than not operate the entrance gates because the

department has more control over activities in the park when the entrance gates are operated. For example, visitors can contact personnel at the entrance gates for information or assistance. Also, the entrance gates are equipped with radios that can be used to summon park rangers and request emergency equipment in the event of an emergency.

Second Contract, October 1, 1985, through April 30, 1986 The Folsom Lake SRA submitted a budget change proposal to the department in September 1984 to hire seasonal park aids to collect entrance fees for the fiscal year 1985-86 off-season. However, according to the department's director of the Inland Region, the department assigned a higher priority to budget change proposals for maintenance projects planned for fiscal year 1985-86 than it assigned to the collection of the Folsom Lake SRA's off-season entrance fees. As a result, the department did not include the proposal to hire park aids for the Folsom Lake SRA in the department's final budget.

Once the department excluded the budget change proposal for park aids to operate the park's entrances for fiscal year 1985-86, the former chief of the department's concessions office, the acting superintendent of the Folsom Lake SRA, and the director of the Inland Region decided to negotiate a second contract for the off-season of the fiscal year 1985-86 to staff the entrance gates and collect fees. These department officials told us that the concessionaire's gross revenue for January 1 to April 30, 1985, exceeded their expectations;

they believed the weather during this period was abnormally good, which increased visitor attendance. They wanted to have information for a second off-season to compare to the results of the first off-season's contract before deciding on whether to invite competitive bids for future contracts.

Third Contract, May 1 1986, through June 30, 1986 Because the Folsom Lake SRA has limited funds to hire park aids to operate the entrance gates for the remainder of fiscal year 1985-86, the department has awarded a third contract to the same concessionaire to operate the entrance gates at the Folsom Lake SRA during May and June 1986. The Folsom Lake SRA has \$13,100 in its operating budget allocated to hiring seasonal employees to operate entrance gates through the end of fiscal year 1985-86. Based on the department's data and our estimates, it needs at least \$35,300 to staff the entrance gates for the average number of hours the gates were staffed for the months of May and June in 1982, 1983, and 1984. Instead of staffing the entrances, the department will use its available funds to hire needed maintenance employees and to provide overtime for park rangers who provide protective services.

The superintendent in charge of the Folsom Lake SRA told us that he will not be able to hire park aids until July 1, 1986, the beginning of the fiscal year 1986-87. The superintendent and the administrative officer for the Folsom Lake SRA told us that the current concessionaire plans to hire as many former department park aids as

possible to operate the entrance gates, that the concessionaire's employees will receive adequate training for working at the park, and that the department will hire as many of the concessionaire's employees as possible in July 1986.

For fiscal year 1986-87, however, the department's Inland Region submitted a budget change proposal of \$56,500 for hiring park aids to collect entrance fees for October 1986 and for January through April 1987. The budget change proposal excludes operating the entrances in November and December of 1986 because these months have the lowest park attendance. According to the department's program budget office, the department approved the fiscal year 1986-87 proposal, and the proposal is included in the fiscal year 1986-87 Governor's Budget.

CONCLUSION

The Department of Parks and Recreation complied with state laws and regulations when it negotiated the contracts for a concessionaire to operate the entrance gates to the Folsom Lake State Recreation Area during the park's off-seasons in fiscal years 1984-85 and 1985-86 and for May and June 1986. The department awarded the contracts to collect fees at the Folsom Lake SRA because it does not hire park aids to operate the entrance gates during its off-season. Also, the

Folsom Lake SRA does not have sufficient funds to hire park aids to operate the entrance gates at the Folsom Lake SRA for May and June 1986.

II

THE DEPARTMENT OF PARKS AND RECREATION COULD EARN MORE REVENUES IF IT USED ITS EMPLOYEES TO OPERATE THE ENTRANCE GATES

From January 1 through April 30, 1985, and from October 1 through December 31, 1985, the department could have earned almost \$243,800 using its own employees to operate the entrance gates at the Folsom Lake SRA. This amount is approximately \$74,900 more than it received in rent payments for these periods. In addition, we determined that the department could earn approximately \$328,500 by using its employees to operate the entrance gates in May and June 1986. This amount is approximately \$37,200 more than it can expect to earn from its concessionaire during this period.

From January 1 through April 30, 1985, and October 1 through December 31, 1985, the concessionaire paid the department a total of \$168,900. The concessionaire's gross revenue from collecting entrance fees for these two contract periods was \$337,700. Table 1 details the fee collection revenue and the department's share of the revenue for fiscal year 1984-85 and from October 1 through December 31, 1985.

TABLE 1
FEES COLLECTED BY THE CONCESSIONAIRE
IN THE OFF-SEASONS BETWEEN
JANUARY AND DECEMBER 1985

	<u>Fees Collected</u>	<u>State's Share</u>
<u>Fiscal Year 1984-85</u>		
January 1985	\$ 23,344	\$ 11,672
February 1985	50,349	25,174
March 1985	50,366	25,183
April 1985	<u>158,639</u>	<u>79,320</u>
Total	<u>\$282,698</u>	<u>\$141,349</u>
<u>Fiscal Year 1985-86</u>		
October 1985	\$ 27,985	\$ 13,992
November 1985	17,845	8,923
December 1985	<u>9,218</u>	<u>4,609</u>
Total	<u>\$ 55,048</u>	<u>\$ 27,524</u>
Total for Both Periods	<u><u>\$337,746</u></u>	<u><u>\$168,873</u></u>

To determine the amount of revenue that the department could have collected during the fiscal year 1984-85 and 1985-86 off-seasons, we analyzed the entrance fees collected by the concessionaire and the number of hours the concessionaire reported operating the entrance gates. Based on the number of hours the concessionaire operated the entrances during this time and the department's average pay rate for its park aids, we estimate that the department would have spent approximately \$93,400 to hire its own park aids to operate the entrance gates. Since the gross fees collected for the park were \$337,700, the department would have earned approximately \$243,800, or about \$74,900 more than it received from the rent paid by the concessionaire.

In addition, we estimate that the department can expect to earn approximately \$291,300 if a concessionaire operates the entrance gates during May and June 1986. To determine the department's potential earnings, we analyzed the entrance fees collected by the department for May and June from 1982 through 1985 and the cost to the department of hiring park aids for May and June from 1982 through 1984. Information on park aids was not available for 1985. The average revenue collected for May and June for the years reviewed was \$364,100. Based on the average hours worked by park aids in May and June 1982 through 1984, we estimate the average cost of hiring park aids for May and June 1986 to be \$35,300. If the department hires park aids to operate the entrance gates, it can expect to earn approximately \$328,500 from entrance fees for May and June 1986. This amount is approximately \$37,200 more than its 80 percent share of the concessionaire's estimated revenue for May and June 1986. Table 2 compares the department's estimated revenue and costs for operating the entrance gates itself to its share of the concessionaire's revenues for May and June 1986.

TABLE 2
ESTIMATED REVENUE FROM ENTRANCE FEES
DEPARTMENT OPERATIONS COMPARED TO
CONCESSIONAIRE OPERATIONS
FOR MAY AND JUNE 1986

<u>Month</u>	<u>Estimated Revenue</u>	<u>Department Operating Gates</u>		<u>Concessionaire Operating Gates</u>
		<u>Estimated Payroll and Utility Costs</u>	<u>State's Estimated Net Revenue</u>	<u>State's Estimated Net Revenue</u>
May	\$ 68,933	\$18,050*	\$ 50,883	\$ 55,146
June	<u>295,136</u>	<u>17,537*</u>	<u>277,599</u>	<u>236,109</u>
Total	<u>\$364,069</u>	<u>\$35,587</u>	<u>\$328,482</u>	<u>\$291,255</u>

*These figures include \$125 for utilities.

CONCLUSION

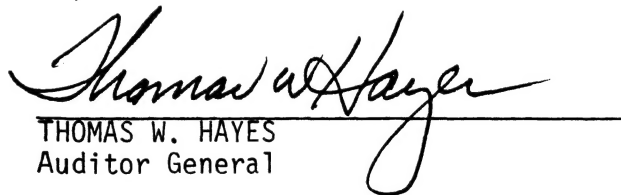
The Department of Parks and Recreation could have earned more revenues than the rent paid by the concessionaire for the off-seasons during fiscal years 1984-85 and 1985-86 if it had operated the entrances with its own staff. Specifically, the department could have earned almost \$243,800, approximately \$74,900 more than it received in rental payments. In addition, for May and June 1986, we estimate that the department could earn approximately \$37,200 more if it could operate the entrances to the Folsom Lake SRA with its own employees.

RECOMMENDATION

To maximize its revenue and provide services to the visitors at the Folsom Lake State Recreation Area, the Department of Parks and Recreation should operate the entrance gates with its own employees for the full off-season.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

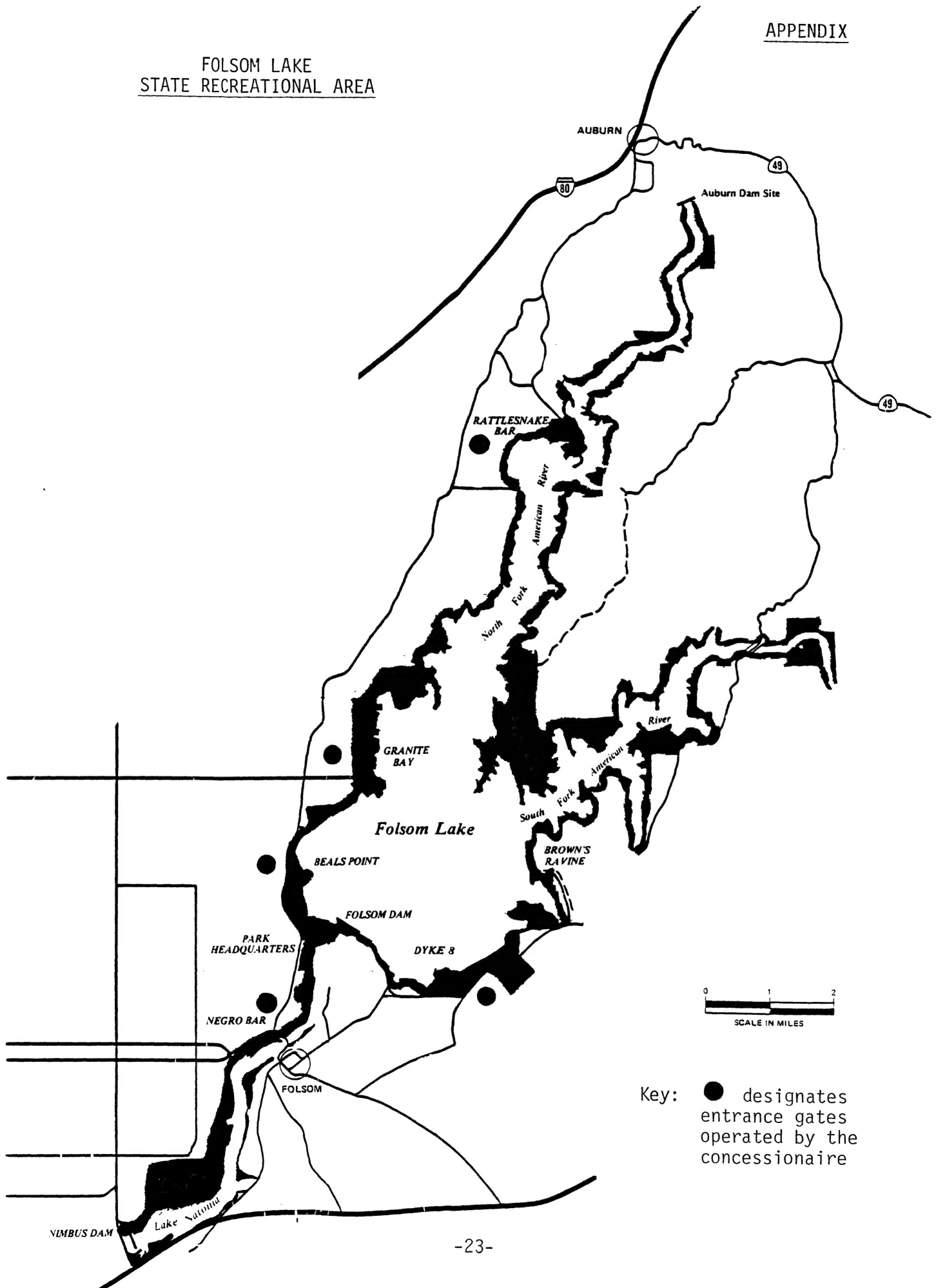
Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: April 7, 1986

Staff: Robert E. Christophel, Audit Manager
Kathleen L. Kaddoura, CPA
D. Clark Paulsen

FOLSOM LAKE
STATE RECREATIONAL AREA



Key: ● designates
entrance gates
operated by the
concessionaire

Memorandum

APR 2 1986

To : Honorable Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Date :

File No.:

Subject : Report on Contracts
to Collect Entrance
Fees at Folsom Lake

From : **Office of the Secretary**


Your report entitled "A Review of Contracts to Collect Entrance Fees at Folsom Lake State Recreation Area" has been reviewed by the Office of Economic and Fiscal Affairs (the Contracts Office) of the Department of Parks and Recreation.

Our comments are as follows:

1. In March 1986, the California State University, Sacramento concluded a State Recreation Areas Entrance Gate study for the Office of Economic and Fiscal Affairs. The study, which included Folsom Lake State Recreation Area, indicates that the most cost-effective method for gate fee collections would be through the utilization of State personnel.
2. A BCP has been submitted for the 1986-87 budget year to provide for adequate staff to cover future off-season gate entrance collections.

Thus, we are also in agreement with the Auditor General's conclusion that the State could increase its revenues by utilizing State personnel to collect gate entrance fees.

If you have any questions regarding our comments, please call Mr. Les McCargo, Chief Deputy Director with the Department of Parks and Recreation, at 445-0290.


Gordon K. Van Vleck
Secretary for Resources

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps